

**EXHIBIT NO. ___(SML-7T)
DOCKET NO. UE-111048/UG-111049
2011 PSE GENERAL RATE CASE
WITNESS: SUSAN MCLAIN**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-111048
Docket No. UG-111049**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
SUSAN MCLAIN
ON BEHALF OF PUGET SOUND ENERGY, INC.**

JANUARY 17, 2012

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PUGET SOUND ENERGY, INC.

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
SUSAN MCLAIN**

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PUGET SOUND ENERGY, INC.

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
SUSAN MCLAIN**

I. INTRODUCTION

Q. Are you the same Susan McLain who provided prefiled direct testimony in these dockets on behalf of Puget Sound Energy, Inc. ("PSE")?

A. Yes. I filed prefiled direct testimony, Exhibit No. ___(SML-1T), and five supporting exhibits in this proceeding (Exhibit No. ___(SML-2) through Exhibit No. ___(SML-6)).

Q. What is the purpose of your rebuttal testimony?

A. I will respond to testimony from Commission Staff witness Rick T. Applegate regarding Puget Sound Energy, Inc's ("PSE" or "the Company") storm damage adjustment and his recommendation to use only an annual average over a multi-year period rather than the annual multi-year average and a deferral. Additionally, I will concur with testimony from Commission Staff witness Roger Kouchi regarding his recommendation that the Commission accept PSE's request to discontinue Service Quality Indices Disconnection Ratio ("SQI-9").

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II. STORM DAMAGE

Q. In his testimony, Mr. Applegate refers to a four year deferral mechanism the Company uses to recover certain storm damage costs.¹ Would you please describe the Company's current deferral mechanism?

A. Yes. One part of the current deferral mechanism is to determine when costs related to storm damage on the Company's system will be considered catastrophic damage costs. The Company uses the Institute of Electrical and Electronic Engineers ("IEEE") Standard 1366-2003, with a slightly modified definition of an outage to establish a trigger for determining when catastrophic storm damage has occurred on the Company's electric system. (The outage definition modification includes sustained interruptions that are one minute or longer, rather than the IEEE definition which includes sustained interruptions that are five or more minutes in length.)

Q. What is the genesis of PSE's use of the IEEE Standard 1366-2003 for its deferral mechanism?

A. In the 2004 general rate case, both Staff and the Company agreed that the definition of a catastrophic event should be changed from the then-current definition as an event where 25% or more of PSE's customers are without power due to weather-related causes. Commission Staff witnesses Kilpatrick and Russell recommended adopting the IEEE methodology of establishing a major

¹ See, Testimony of Rick T. Applegate, Exhibit No. _ T (RTA-1T), page 7 lines 8-9 and lines 16-23; page 9 lines 17-18; page 10 lines 3-4 and lines 9-10.

1 event as the first trigger for determining a catastrophic storm,² and a dollar
2 amount as the second trigger in determining the point where catastrophic storm
3 costs could be considered for deferral.³ The Company was agreeable to the
4 Commission Staff proposal regarding the IEEE methodology but suggested
5 modifying the IEEE methodology to shorten the duration of a sustained
6 interruption from five minutes to one minute. The Commission approved use of
7 the modified IEEE methodology (the "modified IEEE standard") and adopted
8 Commission Staff's recommended threshold for the second trigger.⁴

9 **Q. How does PSE determine if a weather event qualifies as a catastrophic**
10 **storm?**

11 A. The IEEE Standard 1366-2003 uses statistical analysis to identify events that
12 exceed reasonable design and/or operational limits of the electric power system.
13 PSE utilizes the formulas in the Standard to determine the Company's threshold
14 values for each calendar year based upon the previous five years of daily System
15 Average Interruption Duration Index ("SAIDI"). Actual daily SAIDI
16 performance is compared against the threshold to determine if a weather event
17 qualifies as a catastrophic storm. As mentioned above, the Commission approved
18 the use of a one minute outage duration as opposed to a five minute outage
19 duration and this modification is incorporated into the formulas. Any day where

² Docket No. UG-040640, et al., Exh. No. 471 at 4:10 to 12:7 (Kilpatrick).

³ Docket No. UG-040640, et al., Exh. No. 421 at 27:11 to 28:5 (Russell).

⁴ *WUTC v. Puget Sound Energy, Inc.*, Docket Nos. UG-040640, UE-040641, UE-031471 and UG-032043, Order 06, ¶¶ 232-233 and 241 (Feb. 18, 2005).

1 the Company's actual daily SAIDI performance exceeds the threshold is
2 considered a period in which a catastrophic storm may have occurred. Weather
3 reports and findings from the National Weather Service and local meteorologists
4 are also reviewed to verify outage causes were storm related.

5 **Q. Are there other types of storm events for which PSE incurs costs?**

6
7 A. Yes. There are costs incurred for all other storm events that do not meet the
8 modified IEEE standard. These costs are referred to as normal storm costs. PSE
9 experiences storm events throughout the year which result in maintenance or
10 repair to the electric system due to high winds and other extreme weather
11 changes. However, to the extent these weather-related events do not meet the
12 modified IEEE standard, the Company must expense these unforeseen costs as
13 incurred.

14 **Q. Please explain how normal storm expenses and catastrophic storm costs are**
15 **treated?**

16 A. The Company is currently allowed to recover normal storm costs along with the
17 IEEE qualifying costs that are under a certain threshold on a six-year normalized
18 basis. See Exhibit No. ___(JHS-20), page 8 of 14, lines 3-8, for the costs PSE has
19 incurred since 2005 for this category of costs. As shown in the testimony of Mr.
20 Story, this six-year average for purposes of the current rate case is \$7.9 million.
21 In addition, if the Company incurs catastrophic storm costs (*i.e.*, for storms that
22 meet the modified IEEE standard) in one year above a threshold which is

1 currently set at \$8 million, the Company has authority to defer the costs in excess
2 of the threshold. Any costs to be deferred under this authority must be reported to
3 the Commission within 30 days of the storm event and a final report of what was
4 deferred must be made within 90 days of the storm event.

5 **Q. Should the Company be allowed to continue the use of this authority to defer**
6 **catastrophic storm costs?**

7 A. Yes. It is not efficient for PSE to file an accounting petition each time a
8 catastrophic event adversely impacts its system. In addition, the financial
9 uncertainty associated with the regulatory review and ratemaking treatment of
10 such volatile costs is reduced when a mechanism is in place that provides for the
11 predictable treatment of such prudently incurred costs. It makes sense to define
12 those events that are catastrophic, and allow the Company to defer costs related to
13 these events. As mentioned above, regulatory oversight of the mechanism is still
14 assured in that the Company must notify the Commission within 30 days of a
15 weather-related event that PSE reasonably believes will qualify for deferral
16 treatment. A more detailed report is filed no later than 90 days after each
17 weather-related event that exceeds the modified IEEE standard, including those
18 events occurring prior to deferral being allowed. Furthermore, PSE is not allowed
19 to begin amortization of new deferrals until approved for recovery in a general
20 rate case.

1 **Q. Please describe why a storm deferral is necessary for the Company.**

2 A. Windstorms are not uncommon in the Pacific Northwest. On the west side of the
3 Cascades, PSE experiences more precipitation and heavier, wetter snow and ice
4 conditions than experienced by utilities on the east side of the mountains. That, in
5 conjunction with the greater tree density west of the Cascades, results in greater
6 potential damage to our system from weakening trees and limbs. Also, much of
7 PSE's most densely populated service territory lies in the middle of the Puget
8 Sound convergence zone resulting in strong winds coming off the Straits of Juan
9 de Fuca.

10 Some storm events are so severe they cause widespread outages and damage to
11 our infrastructure. These extraordinary events are unpredictable and
12 uncontrollable. In order to deal with large, one-time expenses from extraordinary
13 storm events, the Commission has approved deferral and recovery of such
14 expenses over time. This helps to mitigate the financial impact of catastrophic
15 storm events in the year they occur.

16 **Q. Is PSE allowed to defer normal storm costs?**

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18 A. No. PSE is not allowed to defer any costs for storms that do not meet the modified
19 IEEE standard. These normal storm costs are included for recovery in rates using
20 the six-year normalized level of expense.

21

1 **Q. Is PSE allowed to defer all costs associated with catastrophic storm events?**

2
3 A. No. PSE is only allowed to defer costs associated with catastrophic storm events
4 that exceed the modified IEEE standard and that exceed an annual dollar
5 expenditure threshold. This annual threshold is determined and approved in a
6 general rate case. The annual threshold is currently \$8 million and that level was
7 approved in the Company's 2007 general rate case.⁵ The Company is requesting
8 that the Commission continue to allow \$8 million as the annual threshold.

9 **Q. Once the annual dollar expenditure threshold for storms meeting the**
10 **modified IEEE standard is met, are all storm costs deferred?**

11 A. No. As stated above, PSE is not allowed to defer costs of storms that do not meet
12 the modified IEEE standard, *i.e.*, normal storms. Along with normal storm costs,
13 there are costs associated with modified IEEE standard-qualifying storms that are
14 also non-deferrable. Only incremental transmission and distribution electric
15 system repair costs incurred by the Company during a modified IEEE standard-
16 qualifying storm event may be deferred such as overtime pay for employees,
17 outside contractor costs, and stores material and material overheads to name a
18 few. Even when associated with a modified IEEE standard-qualifying event,
19 some costs cannot be deferred. Straight-time labor costs associated with
20 professional engineers that normally do not charge time to work orders, straight-

⁵ *WUTC v. Puget Sound Energy, Inc.*, Docket Nos. UE-072300 and UG-072301, Order 12, ¶ 58 (October 8, 2008).

1 time labor costs for stores personnel or fleet services personnel are all examples
2 of costs that cannot be deferred.

3 **III. DISCONTINUE SQI #9**

4 **Q. Do you agree with Commission Staff witness Roger Kouchi regarding his**
5 **recommendation that the Commission accept PSE's request to discontinue**
6 **SQI #9?⁶**

7 A. Yes. Mr. Kouchi's recommendation is consistent with and supports PSE's
8 proposal to discontinue SQI #9 and should be adopted by the Commission.

9 **IV. CONCLUSION**

10 **Q. Does that conclude your prefiled rebuttal testimony?**

11 A. Yes, it does.

⁶ See Testimony of Roger Kouchi, page 2 line 20 through page 3 line 3; page 6 line 5 through page 8 line 7; and page 9 line 15 through page 10 line 2.